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FACSIMILE COVER SHEET

To: ROGER DAVE + ROBERT

From: BAUER ROGER

Date: 1/3/96

Subject: NSS CONTRACT

THIS IS THE CONTRACT WE DISCUSSED LAST EVENING. YOU MAY WANT TO GIVE THIS TO DAVE KENNEY

DAVE/ROBERT LETS DISCUSS AT MEETING NEXT WEEK

ROGER.

Total number of pages including cover: ____

If you have a problem receiving this, or do not receive the total number of pages, please call: (518) 899-6812

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01/03/96 07:19 R. J. REYNOLDS TOBACCO COMPANY 002

CARTON MERCHANDISING

ISSUE:

We currently do not have a merchandising contract option for carton outlets with total NSS sets.

- Both RJR and PM require Self-Service packs as part of their respective NSS plans
- Field is utilizing grandfathered NSS contracts to remain on contract with a number of priority chains that have elected to keep all product NSS

Massachusetts - legislative NSS situations (NSS 1 + 2)

CARTON MERCHANDISING

OBJECTIVE:

Eliminate non-performance driven contracts and move to RJR volume to hold our advantaged position.

- Accomplish at no incremental cost to the g'fathered rates
- Maintain program in priority outlets only
- Transition to new grid without putting chain in play

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CARTON MERCHANDISING

RECOMMENDATION:

Develop new contract and provide to field ASAP.

- Bundle resources to include Retail Accrual Program (options 1,2, and 3 available)
- Structure RDA rates to line-up with current g'fathered rates
- Sales Areas make contract available on selected basis

CARTON MERCHANDISING

CONTRACT CRITERIA:

- RJR must have:
  - Primary space for packs and cartons
  - Advertising above RJR brands
  - Promotional or feature area for packs
- Available for Courtesy Booth, Kiosk or Lobby sets
- Contract rate range $.32 - .$.25 per carton

LEVEL 3 - NSS PACKS AND CARTONS

INDUSTRY VOLUME EQUIVALENT	0-216	217-276	277-345	346-434	435-550	551-685	686-865	866-1085	1086+	TOTAL
RETAIL CALLS BY VOLUME BREAK	574	410	358	355	290	156	123	58	81	2415
PCT. OF CALLS BY BREAK	23.8%	17.0%	14.8%	14.7%	12.0%	6.5%	5.1%	2.8%	3.4%	
RJR CONTRACT RANGE		70-89	90-111	112-140	141-177	178-221	222-279	280+		
RJR VOLUME MIDPOINT		79.5	100.5	126	159	199.5	250.5	315		
LEVEL 3 - NSS PACKS AND CARTONS		NSL3A	NSL3B	NSL3C	NSL3D	NSL3E	NSL3F	NSL3G		
1996 RJR $ PER CARTON		$ 0.32	$ 0.32	$ 0.32	$ 0.30	$ 0.28	$ 0.25	$ 0.25		
1996 RJR MONTHLY $		$ 110	$ 139	$ 175	$ 207	$ 242	$ 271	$ 341		

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R. J. REYNOLDS TOBACCO COMPANY
RETAIL PARTNERS MARKETING PLAN CONTRACT
NON-SELF-SERVICE CARTON OUTLET
LEVEL 3

R. J. Reynolds Tobacco Company (RJR) is pleased to announce the following Retail Partners program, effective January 1, 1996, for all retail stores that meet the following criteria:

- 51% or more total industry volume sold by the carton.
- 225+ cartons industry brands and minimum 70 cartons of RJR brands sold per week.
- Merchandise all cartons and packs in a non self-service or limited self-service manner.
- Distribution of all RJR brands in all price tiers as required.

Retailers not meeting the above requirements should discuss alternatives with an RJR representative.

MERCHANDISING/PRESENCE PROGRAM ELEMENTS

- RJR (or approved) Package Merchandiser(s), including applicable signage.
- RJR (or approved) Non-Self-Service Carton Merchandiser, including applicable canopy signage.

MERCHANDISING/PRESENCE ELEMENT REQUIREMENTS

- RJR (or approved) Package Merchandiser(s).
  - Loose pack merchandiser(s) for all brands available for sale. Merchandiser(s) must include promotion/display area, and areas designated for RJR advertising.
  - Merchandiser(s) will be adequate in size to satisfy retailer sales of RJR and/or all industry brands.
  - RJR space on merchandiser(s), not including display space, will be equal to RJR's Share of Market, not less than 25%. Location of RJR brands will begin on top shelf of merchandiser(s) and continue on lower shelves in a contiguous manner, until space requirement is satisfied.
- RJR (or approved) Carton Merchandiser with canopy signage
  - Merchandiser will be adequate in size to satisfy retailer sales of all brands sold, as approved by an RJR representative.
  - Space for RJR brands will be equal to RJR Share of Market (minimum acceptable space as determined by RJR). Space requirement will be determined based on 7-high rows for top shelf and 5-high rows for all other shelves.
  - Location for RJR brands will begin on top shelf of merchandiser and continue on lower shelves in a contiguous manner, until space requirement is satisfied.
  - Merchandisers and canopy will include areas designated for RJR advertising.
  - Merchandiser must have designated sections for Full Price and Savings Brands.
- Other

RJR reserves the right for final approval of display/advertising types, sizes and locations. Displays, fixtures, and free standing signage will be lit as designated by RJR.

ADDITIONAL MERCHANDISING/PRESENCE REQUIREMENTS

- If additional cigarette displays, either temporary or permanent, are permitted, RJR will have the option to place a similar display and not be disadvantaged.
- Retailer further agrees to:
  -
  - Provide RJR accurate volume information
    -- Authorize primary and other suppliers to release brand style volume information to RJR.
  - Provide RJR share of available signage equal to RJR Share of Market
  - Provide RJR share of space equal to RJR share of market on carton merchandisers, if applicable. Minimum acceptable space as determined by an RJR Representative.
  - Ensure adequate quantity of RJR brands are maintained to minimize out of stock, including brands designated for display.
  - Accept new RJR brand styles, as requested.
  - Permit RJR to make reasonable audits of performance and to inspect and rotate RJR products.

write in

- * Permanent RJR advertising will be affixed to RJR displays/merchandisers utilized under this agreement. Retailer will not permit additional advertising of any kind, including that relating to retailers own products, to be affixed to or above RJR merchandiser(s) utilized under this agreement.
- Changes in agreed location of displays/advertising, or effectiveness of location will result termination of this agreement.
- Restricting RJR's ability to display, promote or distribute RJR brands or the ability to compete equally with other tobacco companies in all areas at retail, will result in termination of the agreement.
- RJR reserves the right to modify or terminate this agreement after notice to retailer. In the event of failure of performance by the retailer, this contract may be terminated by RJR forthwith and without notice.

MERCHANDISING/PRESENCE PAYMENT

RJR volume will be determined by the average weekly sales of all RJR brands during the most recent 3-month period.
RJR will pay qualifying retailer $________ per month, for performance of all requirements under this agreement.

R. J. Reynolds Tobacco Company will make payments by check as soon as practicable after the end of each calendar quarter. Payments will be made for stores rendering full performance during a quarter, and on a pro rata basis for stores rendering performance for less than one full quarter, but more than one calendar month. Retailer will not deduct amounts due under contract from invoices due RJR.

RETAIL ACCRUAL PROGRAM ELEMENTS

- Qualifying Merchandising/Presence elements of RJR's Retail Partners Marketing Plan.
- All requirements/criteria stated in Merchandising/Presence section are applicable to Retail Accrual program.

Program Options

Option 1: RJR Retail Accrual - monthly accrual based on RJR volume grid.
Option 2: RJR Retail Accrual with Retailer/RJR Match - monthly accrual with additional Retailer/RJR Match funds based on RJR volume grid.

RETAIL ACCRUAL PROGRAM OPTION REQUIREMENTS

OPTION 1

- Accrual process will begin on contract signing date if prior to the 15th day of the month. Sign up after the 15th day of the month will start accrual the following month.
- Retail Accrual funds are to be utilized to promote selected RJR Full Price and Savings Brands as designated by an RJR Representative.
- All promotions require approval by RJR prior to implementation.
- Provide promotional assistance as requested by RJR.
  Display RJR "Lowest" brands, if applicable Retailer reimbursement will occur as soon as practicable following successful completion of the subject pre-approved RJR Retail Accrual promotion.
- RJR Promotion Dollar Liability is limited to the allocated dollar amount of Retail Accrual as designated by RJR.
- Retail Accrual funds will be accrued by the month. Funds accrued during one calendar quarter are available for use immediately.
- Unused funds may be carried over to the subsequent quarter with prior approval by RJR.
- Funds not utilized for the designated year may not be carried over to the subsequent year.

OPTION 2

- All requirements/benefits stated in Option 1 are applicable to Option 2.
- Retailer must provide matching funds in an amount equal to 50% of Option 1 rate. Retailer match dollars are utilized in the same manner as Option 1 funds and are payable not later than individual promotion completion.
- RJR will provide additional funds in an amount equal to Retailer Match monies. RJR Match monies will be accrued on a monthly basis and are available for use on the same basis as the Option 1 funds.

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R. J. REYNOLDS TOBACCO COMPANY
RETAIL PARTNERS MARKETING PLAN CONTRACT
NON-SELF-SERVICE CARTON OUTLET
LEVEL 3

ADDITIONAL RETAIL ACCRUAL REQUIREMENTS

- Display size, quantity, promotional timeframe, and promotional type will be approved by an RJR Representative.
- Promotional advertising associated with RJR Brands will be affixed to, or above each display, as approved by an RJR Representative.
- Retailer will not permit advertising of any kind, including that relating to retailers own products, to be affixed to RJR displays (temporary and/or permanent) without prior consent of RJR.
- Retailer agrees to maintain RJR displays and signage (temporary and/or permanent) in an unobstructed manner, in the location agreed upon by an RJR Representative. Changes in location of displays, or effectiveness of display location, will terminate this agreement.
- Should retailer be permanently disqualified under RJR's Retail Partners Merchandising/Presence programs, participation in the Retail Accrual program and all other RJR Promotional programs will be terminated.

Request for Taxpayer Identification Number and Certification
R. J. Reynolds Tobacco Company must backup withhold tax at the rate of 31% from payee if the payee fails to provide R. J. Reynolds Tobacco Company with sufficient correct information to issue a Form 1099 to such payee for any calendar year. With an individual proprietorship, this information is the person's individual name and either his/her social security number (S.S. No.) or the employer identification number (EIN) for the proprietorship. In addition to the payee's individual name, the payee may also provide the business name for the sole proprietorship, provided the individual name is listed before the business name. (Sole proprietors may not furnish only the business name.) With respect to corporations, partnerships, estates, trusts, and similar entities, the necessary information is the entity's name and employer identification number (EIN) as it appears on IRS Form [illegible] (Assignment of Employer Identification Number).

Type of Organization: Corporation ___ Sole Proprietor ___ Partnership, Estate, Trust, etc. ___

Is this a corporation exempt from backup withholding? Yes ___ No ___

Please use the appropriate line to fill in the name and Taxpayer Identification Number:

Corporation Name ______________________ EIN ___-__________

or

Sole Proprietor's Name ______________________ S.S. No. ___-__-____

Sole Proprietor's Business Name ______________________ EIN ___-__________

or

Partnership, Estate, Trust, etc. ______________________ EIN ___-__________

____
Address (Number, street, and apt. or suite number)

____
Address (City, state, and ZIP code)

Certification:
Under penalties of perjury, I certify that:
1. The number shown above is my correct taxpayer identification number (or I am waiting for a number to be issued to me) and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding.
Certification Instructions: You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because of underreporting interest on your tax return.

Store Name (Please Print) ______________________ RJR Account No. ______________

Street Address ______________________ RJR Territory No. ______________

City/State ______________________ Zip Code ______________

Call Classification ______________________ Branch (If Chain) ______________

Type	# Stores	Monthly Payment	Total Quarterly Dollar Amount
			$
			$
			$
		TOTAL	

____
Date Contract Signed

Retailer's Signature ______________________

Title: ______________________

____
Contract Effective Date

R. J. REYNOLDS TOBACCO COMPANY

By: ______________________

FUNCTION	CONTRACT TYPE	PLAN	UNITS	RATE	EFFECTIVE MO/YR
FUNCTION					
A=ADD					
E=END					
D=DELETE					
C=CHANGE					

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